

A Frank look at real estate

Takeaways from exclusive Knight Frank-Kenanga collaboration event

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Kenanga co-organized a well-attended real estate event with Knight Frank, where the highlight was the exclusive launch of Knight Frank's half-yearly real estate highlights (REH) for 1H25, and followed by a panel discussion session.

Knight Frank illuminated the hall-full of participants with on-the-ground details, and sector specialists covering all major sectors in key states, mainly Klang Valley, the hot spot of Johor and also Penang. Based on interaction levels, it was evident that interest levels were very high on degree of industrial take-up although there was some concern about the longevity of data centre rollouts while some also wondered if there was oversupply – and the ability to absorb the surplus – especially in malls and warehousing space.

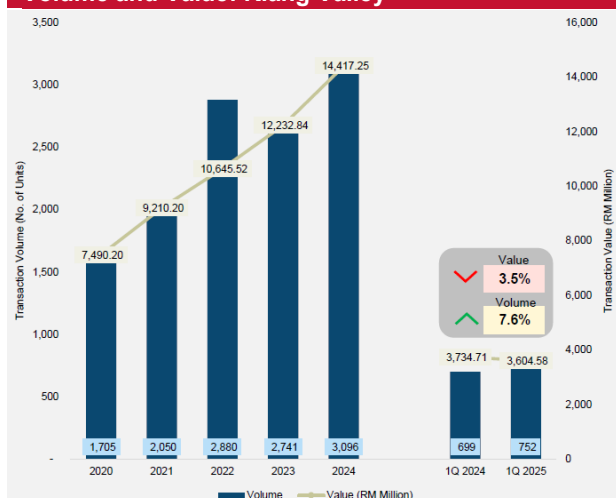
Post meeting, Kenanga came away with reinforced belief in industrial properties play in Klang Valley (SIMEPROP) and Johor (ECOWLD). While Knight Frank points out data centres are moving into a more matured phase, we regard the strong investment cycle would still benefit core-and-shell construction plays (GAMUDA, SUNCON, IJM), TENAGA, and Mechanical-and-Engineering (M&E) plays. Meanwhile, innovation is key for malls, and we highlight consumer names such as AEON. Amid rising tourist arrivals, this benefits IHH and CAPITALA. Please see Exhibit 12 for summary.

1. Industrial pillars still holding strong

Knight Frank found that between CY20 and CY24, annual industrial transaction values in Klang Valley and Johor Bahru (including Kulai) grew by an 18% and 40% 4-year CAGR, respectively. While this could be attributed to pent-up demand coming out of the Covid-19 pandemic, it ties in with the increase of capital investments injected into the mentioned regions. Kenanga opines that Klang Valley will likely remain the largest industrial hub in the country on the back of its relatively more mature industrial parks, infrastructure and strategic access to ports (though we acknowledge Johor's Tanjung Pelepas Port is gaining momentum with regards to activity).

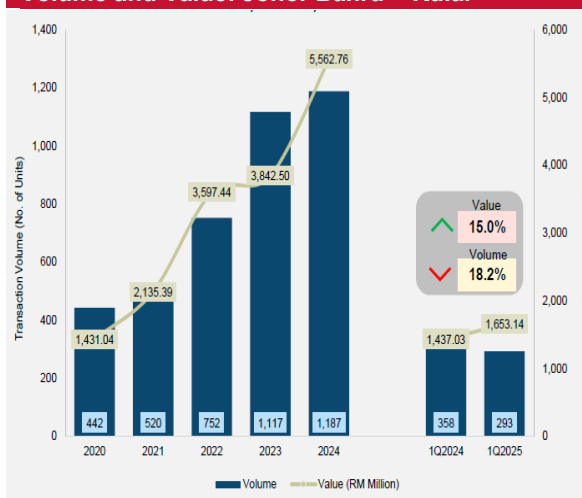
Specifically on Johor, Kenanga gathered that its industrial and data centre boom commenced with the launch of YTL Green Data Centre Park in Kulai in Aug 2022. This kickstarted interests by large multinationals in the state, further fuelling its investments into that space. Now, with the officiation of Johor's SFZ in Sep 2024 and SEZ in Jan 2025, in addition to the increase in cross-border activities with Singapore stemming from the upcoming launch of the RTS, Kenanga believes that activities and investments into the state could remain buoyant in the near-to-medium term.

Exhibit 1: Industrial Market Activities – Transaction Volume and Value: Klang Valley



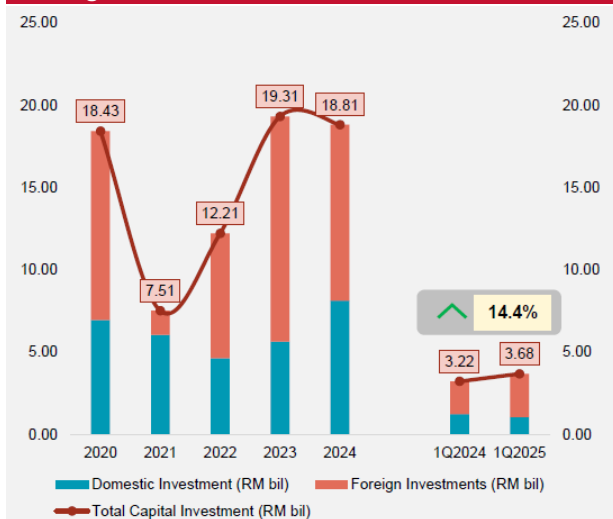
Source: Knight Frank Research

Exhibit 2: Industrial Market Activities – Transaction Volume and Value: Johor Bahru + Kulai

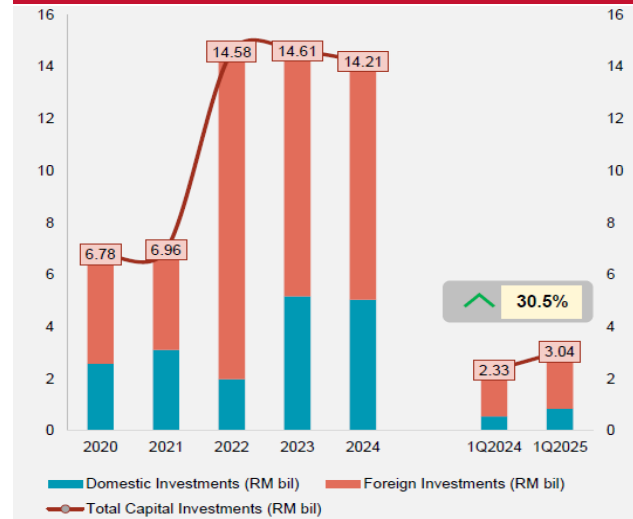


Source: Knight Frank Research

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Exhibit 3: Approved Manufacturing Investments: Selangor

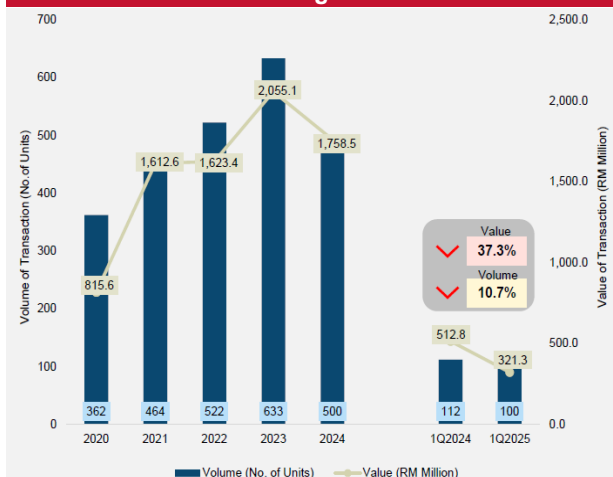
Source: Knight Frank Research

Exhibit 4: Approved Manufacturing Investments: Johor

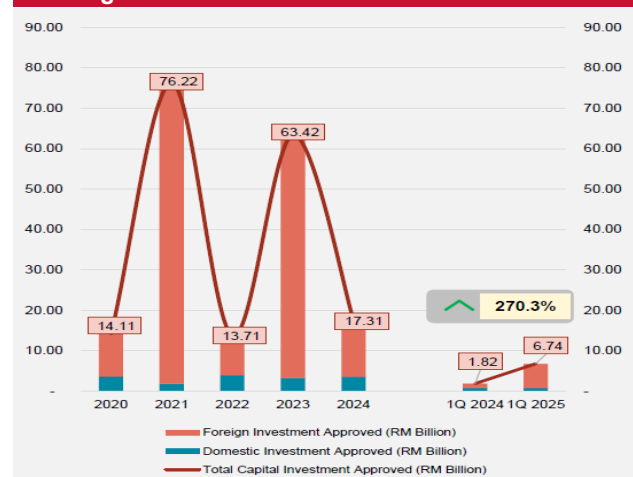
Source: Knight Frank Research

With regards to market beneficiaries in the industrial space, immediate proxies to Klang Valley would be **SIMEPROP (OP; TP: RM1.79)** for its industrial parks in Bandar Bukit Raja (2,002 acres based on FY24), Elmina 8 (1,161 acres) and the recently launched Vision Business Park (760 acres) in Nilai, Kenanga observes. The group's exposure in Johor is so far limited to its Bandar Universiti Pagoh's total mixed development size of 2,148 acres though its farther distance to major ports may deem it less preferred compared to other industrial parks in the state. Direct beneficiaries to Johor (JB and Kulai) would be **ECOWLD's (OP; TP: RM2.04)** Eco Business Park I, II, and III, and Quantum Edge industrial parks, collectively offering 1,647 acres and **SPSETIA (MP; TP: RM1.25)** for its Tanjung Kupang industrial land bank of 307 acres.

Penang remains a hot spot for industrial activity, mostly dominated by the technology and semiconductor sectors, Kenanga believes. However, we opine that sentiment within the state does appear to be highly cyclical with foreign investments appearing largely frontloaded, as highlighted by Knight Frank during the session via approved manufacturing investments data of the state. According to Kenanga's checks, the state government is looking to inject new supply via its Silicon Island project, south of Bayan Lepas, though visible spillover is yet to be seen in listed developers other than **GAMUDA (OP; TP: RM5.59)** which is the joint developer.

Exhibit 5: Industrial Market Activities – Transaction Volume and Value: Penang

Source: Knight Frank Research

Exhibit 6: Approved Manufacturing Investments: Penang

Source: Knight Frank Research

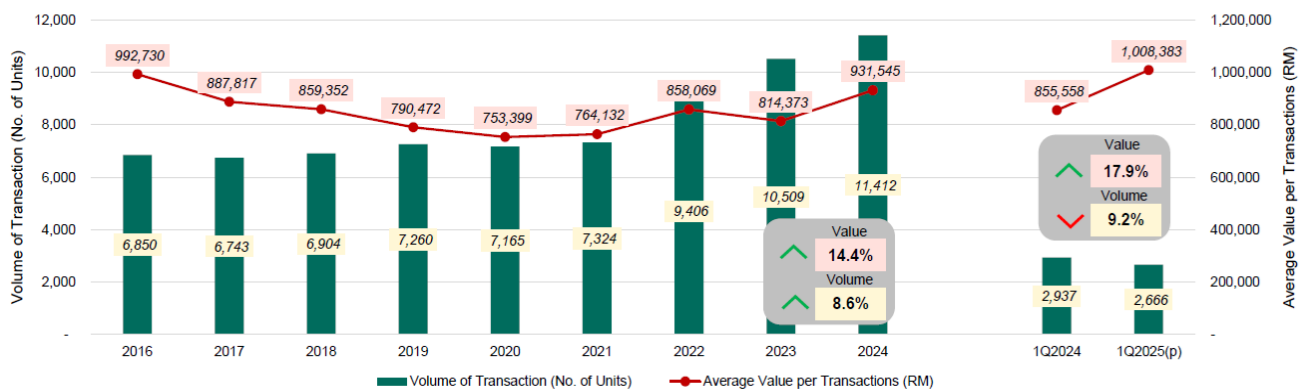
2. Higher-value shifts in residential dynamics

Focusing on high-rise residential trends, Knight Frank highlighted that transaction volumes and values in KL had picked up mostly in CY22, coming out of the pandemic. Knight Frank found it worth noting as well that the growth of average transaction values had outpaced volumes, reflecting a higher appetite by homebuyers for higher-priced homes. From Kenanga's checks among property developers and mortgage lenders, the pick-up in transaction volumes in CY22 could have been made up by more affordable offerings (RM300K–RM500K) which led market launches at that time, owing to development being stalled by movement control orders between CY20 and CY21. Notably, **MAHSING's (OP; TP: RM2.29)** c.3,700-unit M Vertica project saw its handover during this year, which may have prompted pent-up subselling of units.

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Between CY23 and CY24, we noted the completion of several high-end residences such as Core Residences @ TRX, Agile @ Bukit Bintang and Pavilion Ceylon Hill @ Changkat with notable launches being Talisa @ Bangsar Hill Park, Branniganz Suites @ Bukit Bintang and Skyline Embassy @ Ampang.

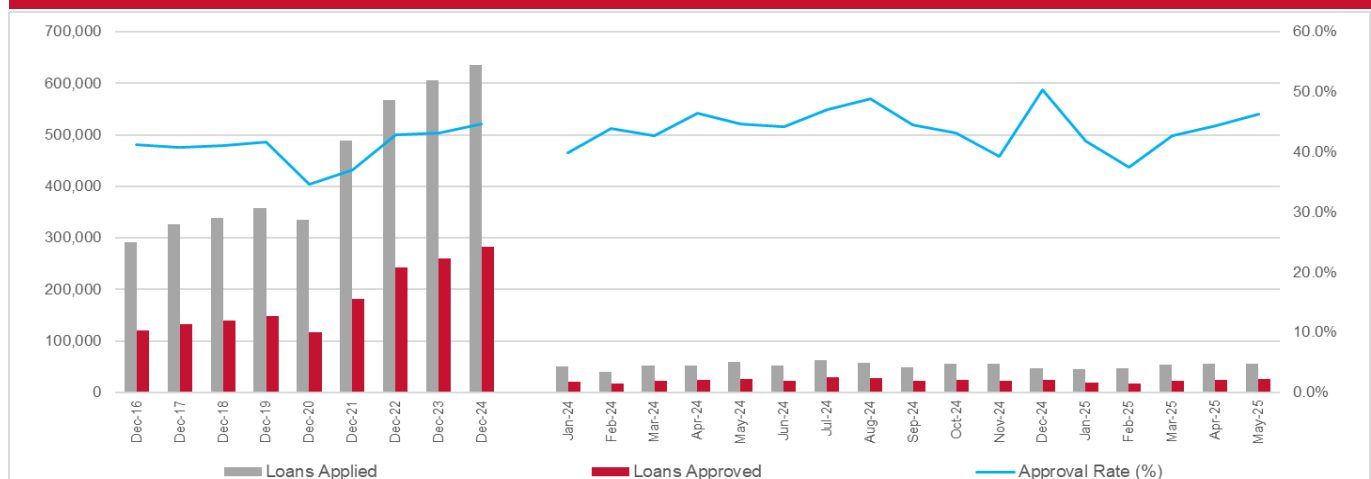
Exhibit 7: Transaction Volume and Value of High-Rise Residential in Kuala Lumpur, 2016–1Q2025(p)



Source: Knight Frank Research

In the lens of lenders, a higher value mortgage mix paints a better outlook for asset quality as high income/networth individuals are typically seen to have lower repayment risks, Kenanga observes. We also witnessed that average mortgage loan approval rates were the highest in CY24 at 44.6% with May 2025's monthly average coming in at 46.4%. This signifies an increasing willingness to lend in a property value appreciating environment.

Exhibit 8: Banking System Mortgage Approval Rates



Source: BNM, Kenanga Research

3. Logistics

(by Wan Mustaqim Bin Wan Ab Aziz | wanmustaqim@kenanga.com.my)

According to Knight Frank, warehousing rates are weakening which most likely is due to oversupply. The pipeline supply of warehouses is expected to increase by an addition of 4.2m sq ft in 2H2025, which may influence the future market dynamics in terms of availability, pricing and take-up rates. From our checks, in terms of supply, five new warehouse developments are expected to be completed by end-2025, adding roughly 7 million sq ft of industrial space to the market. Among the developments are Plot 1 Phase 3A of Pulai Indah Industrial Park in Klang and the Shah Alam International Logistics Hub. Other notable upcoming developments include Bukit Raja Industrial Gateway Plots 3, 4 and 5 in Klang, and Phase 2 of the YTL warehouse in Shah Alam, both expected to be completed in 2026.

Kenanga channel checks show rent pressures highlighted by Knight Frank is not broad-based. From our discussions with prominent warehousing player, i.e. **SWIFT (UP; TP: RM0.32)**, there is no weakening in rental rates in warehousing, where the rates either remain at the current level for long-term contracts (i.e. 2–3 years) or increase due to a high demand for ad-hoc or short-term warehousing (i.e. six months to 1 year). In our view, Knight Frank's data may be reflective of those leaning more towards commodities-based warehousing, which saw a significant decline in demand due to restriction by the European Union as it phases out palm oil as a biofuel and restricts imports of palm oil-linked to deforestation due to environmental concerns.

Same-day delivery trend as catalyst. Meanwhile, the current trend that SWIFT Haulage and other warehousing players are focusing on is e-commerce-based warehousing which saw a significant uptake, offering competitive rental rates based on location. For example, if customers bought products from online stores such as Guardian, Watsons, etc., they will receive their parcels within the same day, or the latest, next day as the products will be delivered directly from the e-commerce warehouses.

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4. Right place and time – tourist arrivals buoy private healthcare operators

(by Raymond Choo Ping Khoo | pkchoo@kenanga.com.my)

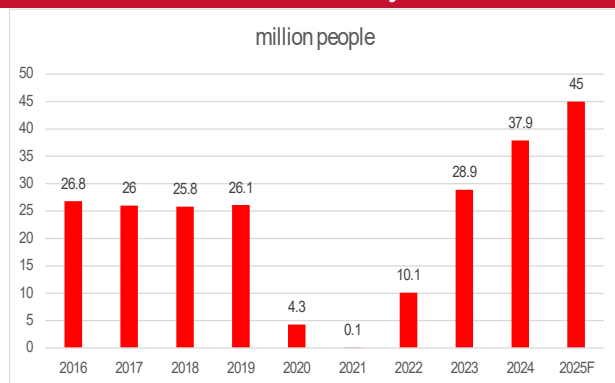
One of the data points that Knight Frank had also pointed to in its presentation was the strength of tourism pick-up, where tourism arrivals for 1Q25 rose to 6.4m from 5.8m (+10%). These continue to augur well for medical tourism play, in Kenanga's view. Kenanga projected tourist arrivals of 43m in CY25, up 13% from 38m in CY24, backed by higher demand for both business and leisure air travel. The number is consistent with Tourism Malaysia's target of 45m (see Exhibit 1). A key driver is Chinese tourists that historically contributed to about 12% of total tourist arrivals in Malaysia.

MHTC medical tourism forecast is expected to underpin private healthcare operators. According to the Malaysia Healthcare Travel Council (MHTC), medical tourism revenue is projected to rise by 10% to RM2.8b in CY25. Specifically, **KPJ's (UP; TP: RM2.50)** health tourism revenue climbed 22% YoY in 2024, above the expected projected industry growth of 11%. In 1QCY25, **KPJ's** health tourism revenue rose 11% YoY to RM56m. Similarly, **IHH's (OP; TP: RM8.11)** health tourism revenue accounted for 7% and 11% in CY24 and 1QFY25, respectively. Malaysia is known for certain medical services in areas including in vitro fertilisation, gastroenterology, orthopaedic surgery, and obstetrics and gynaecology, which has attracted a significant number of medical tourists. The National Heart Institute is also a popular destination for many medical tourists, thanks to the hospital being recognised as the "Cardiology Service Provider of the Year" in Asia Pacific by the Global Health and Travel Award for seven consecutive years.

Higher air passenger traffic growth by MAVCOM. According to the Malaysian Aviation Commission (MAVCOM), Malaysia's air passenger traffic is expected to hit record high in 2025 with a forecasted growth between 8.4% YoY and 15.6% YoY, translating to 105.8m and 112.9m passengers, driven by additional seat capacity deployment by airlines, increased demand for international travel, and overall increase in household income. Airlines are projected to expand capacity by 15.8% YoY in 2025, albeit driven by strong growth in the domestic sector at 21.1% YoY. The top three regions with the highest seat capacity growth are expected to be to Africa, Europe, and South Asia.

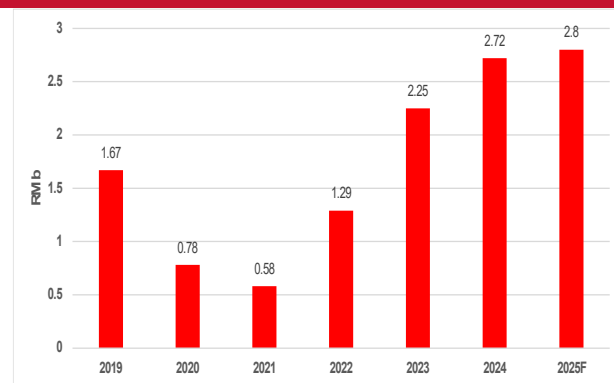
Opening up to new route pairs at CAPITALA. Corroborating with the above data, **CAPITALA (MP; TP: RM0.88)** has also expressed its optimism for a resurgence in passenger numbers and connectivity, expected to be driven by the introduction of new airlines and services at key airports, including Kuala Lumpur International Airport, Penang, Kota Kinabalu and Langkawi. By the end of 3Q25, **CAPITALA** expects all aircraft to be out of storage. Over the next three years, it aims to add 4–6 aircraft per year, ending with 236 narrowbody aircraft in 2027. Its upcoming deliveries consist of A321LR, which will allow the group to fly farther, i.e. up to seven hours, opening up new route pairs. In 2025, the group is expecting eight new A321neo and six redeliveries, ending the year with 226 aircraft. In CY25, it will focus on cost control, debt reduction and route optimisation to double down on the most profitable corridors, boost domestic market share and enhance Fly-Thru connectivity.

Exhibit 9: Tourist Arrivals in Malaysia



Source: Tourism Malaysia, Kenanga Research

Exhibit 10: MHTC Health Tourism Revenue



Source: MHTC, Kenanga Research

5. DC sector moving into a more mature phase

(by Teh Kian Yeong | tehky@kenanga.com.my)

Data centre boom moderates but remains a key growth sector. There was a surge in data centre investments post-Covid, with total investment reaching RM160b in 2024, more than triple the amount in 2023. However, the sector is now entering a more mature execution phase of announced plans, according to Knight Frank. In 1HCY25, digital investments totalled RM42.6b (vs. RM66.2b in 1HCY24), with over 70% allocated to data centres and cloud infrastructure. Land transactions related to data centres have also moderated, with only four deals recorded in 1HCY25, down from nine in 1HCY24. While Johor continues to lead in data centre development, Klang Valley has also seen healthy activity. Notably, Pearl Computing acquired land from **ECOWLD (OP; TP: RM2.04)** in Puncak Alam and from **GAMUDA** in Springhill, Port Dickson.

There are nearly 20 new data centre projects in the pipeline, with 5–7 tenders expected to be awarded in 2HCY25. The tender process for the Springhill project is expected to kick off in 1HCY26. In addition, Knight Frank's reports also talked of data centre growth in Sarawak, under Sarawak Kota Petra Green Technology Park which plans to host six AI-driven data centres.

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The government remains committed to attracting new investments, with a stronger emphasis on job creation, renewable energy, ecosystem development, and generating positive spillover effects for local economies. However, several challenges persist, including infrastructure bottlenecks, talent shortages, shifting policy landscapes, and recent electricity tariff hikes (from 55 sen/kWh to 60 sen/kWh). We continue to expect major contractors such as **GAMUDA**, **SUNCON (MP; TP: RM5.66)**, and **IJM (OP; TP: RM3.40)** to benefit from the strong data centre investment cycle. Utility player **TENAGA (OP; TP: RM17.20)** is also well-positioned to ride on the rising electricity demand and capex upcycle. Other M&E and related beneficiaries include **MNHLDG (Not Rated)**, **SCGBHD (Not Rated)**, **PWRWELL (Not Rated)**, among others.

During the meeting, there were also questions from the floor about the level of interest in Malaysia data centres since the AI chip export rules introduced by the US, and its potential effects.

6. Innovation is key for retail; attendees were curious on the effect of service tax on the rental demand.

(By Thin Yun Jing | thinyl@kenanga.com.my and Chris Tong | christong@kenanga.com.my)

Retail – fortune from innovation

Knight Frank highlighted a focus shift towards optimisation and placemaking. Knight Frank shared that retail growth is transitioning away from large-scale expansion to more efficient formats, highlighting the proliferation of mall innovation particularly in Klang Valley. There was repositioning of underperforming malls, Knight Frank observed, when asked about challenges brought about by an oversupply of malls.

Kenanga sees repositioning from transaction to social and lifestyle destinations. The shift towards placemaking and experience-led retail aligns with our expectation on evolving consumer expectations. Shoppers today seek more than just products as they value immersive experiences, convenience, personalised service, and engaging environments. This is evident in the growing popularity of experiential formats like blind box stores, and the increasing integration of F&B within retail spaces, such as Uniqlo Coffee and Muji Café. These initiatives enhance dwell time and repeat visits, signalling a broader repositioning of retail from purely transactional outlets to social and lifestyle destinations. Furthermore, new retail supply is increasingly tied to mixed-use developments focused on community relevance, and curated everyday offerings to ensure consistent footfall and long-term viability. AEON Mall KL Midtown (opening mid-FY26) is one of the key examples, anchoring the retail podium within a larger development comprising residential, office, and hotel components. Proxies in this space include **AEON (MP; TP: RM1.59)**.

Klang Valley continues to see active repositioning, with malls like Sunway Pyramid, 3 Damansara, and Alamanda upgrading through smart features, new anchors, and entertainment-led enhancements, with **SUNREIT (OP; TP: RM2.11)** as a potential beneficiary. Regionally, Johor is showing stronger momentum, with retail occupancy rising +2.5% YoY in 1QCY25 to 72.4%, partly due to a slight dip in existing supply, and likely driven by higher-spending Singaporean visitors. Penang remains relatively stable, though the upcoming Waterfront Shoppes in Gelugor (2HCY25) may bring renewed traffic and investment.

Office space still needs monitoring, especially given introduction of SST

Net absorption rates better, with rents in Malaysia relatively attractive, anchoring office rents. Knight Frank data pointed to average occupancy rates which rose 1.6% in KL City and 2.2% in KL Fringe, while that for Selangor was flat. This is in reference to 1H25 (preliminary figures) versus the corresponding half in the previous year. Total office space demanded saw positive growth (without taking into account of supplies). There were questions from the floor as well on the introduction of service tax and its impact to rental decisions. We understand that most of the current decisions to rent were the result of earlier discussions, and thus would not be significantly impacted. This is corroborated by the fact that rents in Malaysia are perceived to be cheap within the larger region, although Knight Frank cannot rule out some delay from relocation and expansion plans.

Exhibit 11: Office Performance Indicators Across Localities

Submarkets	Average Occupancy Rates		Average rental rates	
	2H24	1H25 (p)	2H24	1H25 (p)
KL City	67.50%	59.10%	RM6.64	RM6.69
KL Fringe	87.20%	89.40%	RM5.78	RM5.81
Selangor	74.40%	74.40%	RM4.21	RM4.24

Source: Knight Frank

As of now, we continue to see incoming supplies and we have yet to see a notable uptick in demand that can meaningfully keep up with the increase in supplies in the office market, anchoring Kenanga's neutral view. Nevertheless, we remain positive on the continuous rising tourist arrivals and increasing room rates for hotels. Top beneficiaries will be **SUNREIT** and **KLCC (MP; TP: RM8.52)**. For the former, the hotel segment contributed about 15% of its total NPI last year, whereas for the latter, KLCC hotel's (Mandarin Oriental) performance had not been stable in the past two years, and we believe it is an area worth monitoring.

SUMMARY

Exhibit 12: Potential proxies and their respective drivers	
Name	Drivers
SWIFT	Seeing increasing warehousing rental rates due to high demand for ad-hoc or short-term warehousing, amid weakness in general, as observed by Knight Frank
IHH	Beneficiary of medical tourism with medical tourism revenues having grown to 11% in 1Q25 (from 7% in 2024)
CAPITALA	A resurgence in passenger numbers and connectivity, with aircraft fully out of storage by 3Q25
GAMUDA, SUNCON, IJM	Data centre investment cycle especially in core-and shell construction
MNHLDG, SCGBHD, PWRWELL (All N-R), and TENAGA	Other M&E and related beneficiaries, as a proxy to electricity demand capex of TENAGA
AEON	Example of introducing integrated mall format with AEON Mall KL Midtown anchoring the retail podium within a larger development comprising residential, office, and hotel components
SUNREIT	Hotel segment contributes 15% of net property income (2024) amid rising tourist arrivals
SIMEPROP	Industrial exposure in Klang Valley
ECOWLD	Direct exposure to industrial properties in Johor

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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